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1. (U) Summary: During his August 28-31 visit to Morocco, Assistant U.S. Trade Representative (USTR) Shaun Donnelly emphasized the mutual benefits of the U.S.-Morocco Free Trade Agreement (FTA) and outlined U.S. thinking regarding preparations for the first meeting of the Joint Committee later this year. Although Donnelly heard a predominantly positive Moroccan assessment of the agreement, he also reviewed outstanding issues that have arisen since the FTA's implementation on January 1, 2006. Foremost among these issues are a significant difference in bilateral trade data, disagreement on the definition and application of transshipment, and Moroccan administration of cereal quotas. End Summary.

First Joint Committee Meeting Since Implementation

2. (U) Assistant USTR for Europe and the Middle East, Shaun Donnelly, Assistant USTR for Trade Capacity Building, Mary Ryckman, and Director for European and Middle Eastern Trade Affairs Paul Burkhead met with GOM officials and Moroccan business representatives on August 30 in preparation for the first Joint Committee meeting since implementation of the U.S.-Morocco FTA on January 1, 2006. The USTR team first met with approximately 20 Moroccan officials representing the various ministries involved with implementing the FTA, which was led by MFA's FTA expert Houda Marrakchi.

3. (SBU) USTR officials then met privately with Ambassador Abdallah Salah Eddine Tazi, Director of American Affairs in the Ministry of Foreign Affairs (MFA). Tazi emphasized the importance of the FTA as the most visible symbol of U.S.-Moroccan cooperation and said that Morocco was open to the Joint Committee convening in either the U.S. or Morocco. He remarked that the FTA, together with similar agreements with the European Union and Turkey, demonstrated Morocco's commitment to reform, transparency, and international competitiveness. Tazi acknowledged that the Ministry had been focused earlier in the year on other issues, but predicted that the new Moroccan government would be ready to engage on the Joint Committee meeting following its installation in mid-October.
(Comment: Donnelly et al were originally scheduled to meet with

Taib Fassi Fihri, Minister Delegate to the Minister of Foreign Affairs, who was called away to France in preparation for an upcoming visit by President Sarkozy. Fihri was the principal negotiator for the FTA, is in many respects the most important player within the GOM on U.S. issues, and will most likely represent Morocco in the Joint Committee. Tazi's insistence that discussion of the Joint Committee meeting await the formation of a new government likely means that we may not be able to hold a meeting in 2007. End Comment.)

14. (SBU) Both Tazi and Marrakchi emphasized their belief that the Joint Committee meeting should accentuate the positive, and leave areas of disagreement to be addressed by technical committees and ongoing informal discussions. Ambassador Donnelly agreed, suggesting that difficult issues be considered by the applicable technical committees in the run-up to the annual review: i.e., the Market Access Committee could consider transshipment, GSP preferences, and accelerated reduction of textile tariffs, while the agricultural committee could address the full range of agricultural issues and build on recent video-conferences between U.S. and Moroccan officials that have focused on wheat quota issues.

Principal Issue - Differing Trade Statistics

15. (SBU) The most significant issue raised during the GOM meetings, and one that could influence how high a profile Morocco wishes to accord the Joint Committee meeting, was the significant difference in bilateral trade statistics following the FTA's implementation. Far from showing an increase in Moroccan exports to the U.S. (U.S. trade data compiled by OTII/Dept of Commerce show Moroccan exports to the U.S. increased 18 percent to USD 521 million), Moroccan data

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compiled by the Office des Changes shows 2006 Moroccan exports to the U.S. fell below USD 235 million, a 19 percent decrease from 2005. Both Donnelly and Tazi agreed on the urgent need to reconcile the differences. Marrakchi noted that this Office des Changes data is also contrary to Moroccan Industry Ministry data that showed Moroccan textile exports to the U.S. in 2006 increased 52 percent over 2005.

U.S. Issues - Transshipment and Cereal Quotas

16. (SBU) The differing trade figures also tie into one of the most significant outstanding differences in interpretation of the agreement: namely, what constitutes permissible transshipment under Chapter 5 "rules of origin" provisions. The U.S. interprets FTA requirements to mean that as long as a product does not enter into commerce or advance in value, it remains a direct shipment, even if it includes transshipment and pre-staging by U.S. exporters in European facilities. By contrast, Moroccan customs officials have continued to hold to a much more limited interpretation, arguing that transshipments under the FTA must be dispatched following an order by a Moroccan customer and cannot be pre-staged by U.S. exporters in European facilities. (Note: This key point of disagreement was last addressed by a DVC and letter from Assistant USTR Donnelly to Director General of Customs Abdellatif Zaghnoun in July 2007, which Moroccan officials are now studying. The Moroccan side indicated they would reply to the letter in the near future. End Note.)

17. (SBU) As reported in reftel, Moroccan implementation of wheat Tariff Rate Quotas (TRQ) hindered U.S. exports in 2006. At issue was agreement on the timing and method for calculating the annual size of the TRQ, Morocco's failure to publish a schedule of tenders for use by both importers and exporters, the country's failure to re-tender unallocated quota from previous tenders, and the GOM's failure to accept all bids from importers who are willing to pay the negotiated duty under the TRQ. Although most of these issues remain in 2007, the radical increase in world wheat prices and the shortfall in the Moroccan local supply of wheat have resulted in more U.S. wheat being sold to Morocco than in 2006. Although the

premium normally paid by importers for licenses to import at preferential rate under the TRQ was suspended in July 2007, the lack of transparency of the Ministry of Agriculture in the management of the quota, together with recurring abrupt changes to and announcement of wheat duties, continues to add considerable risk to importers. Donnelly emphasized the importance of a meeting of the Agricultural Committee of the FTA, in advance of the Joint Committee, to consider the full range of these and other agricultural issues. (Note: In private discussions with econoff, Marrakchi acknowledged that Morocco's stance on re-tendering is unlikely to change, as it is also the approach applied under its agreement with the European Union. Without elaborating, Marrakchi also suggested that a separate subcommittee on sanitary and phytosanitary measures (SPS) might be useful. End Note.)

Moroccan Issues - GSP and Textile Tariff Reduction

18. (SBU) During the roundtable meeting with GOM officials, Donnelly and Ryckman heard first-hand of Morocco's desire to accelerate reduction of textile tariffs and Moroccan desire to restore GSP preferences for certain textile and agricultural products. (Note: Following the end of FTA negotiations, Morocco made the textile tariff reduction proposal to both the U.S. and the EU. While the U.S. has not formally responded, the EU did so immediately, and reached agreement with Morocco on a more preferential tariff schedule. End Note.) Donnelly explained that the textile tariff treatment agreed in the FTA negotiations represented the limit of what the U.S. could offer at this time. Textile trade is a sensitive issue with many stakeholders and accelerated tariff reductions would not be possible at this time. He promised a formal reply upon his return to Washington, while making very clear that the answer would simply reflect the realities he had just laid out. He suggested the market access committee meet to discuss both requests in the run-up to the Joint Committee meeting.

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19. (SBU) Comment: Post has worked aggressively through 2007 to highlight the positive results of the first year of the agreement, as reflected in U.S. trade statistics, but the effort has been hampered by the fact that Moroccan figures are much less positive. An editorial and a lengthy article in a leading business daily just this last week argued that the agreement has not delivered the promised results, and that "one is obliged to question it" as a result. Post's effort to obtain funding through the Commercial Law Development Program (CLDP) for a census team to visit Morocco by the end of the year to engage in a "mirroring" exercise to reconcile the differing figures, which received support from the USTR team, will thus be key to enabling us to continue to tell a positive story that resonates with the Moroccan public and to winning Moroccan support for a high profile joint committee meeting. End Comment.

RILEY